

**University of Massachusetts**

**Report of the  
GASB35 Task Force  
Phase I**

**April 26, 2001**

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## Members of the Task Force

### **Sponsors**

Frank Dunton  
Charles Gisondi  
Thomas Mathers  
William Mitchell  
Joe Monroe  
Janet Wanczyk  
Sam Stewart

Daniel Brosnan  
Byron Drinkwater  
Joyce Hatch  
William Mitchell  
Steve O’Oriordan  
Brian Szymanski

### **Reporting Subgroup**

Christine Wilda  
Glenn Hartmann  
Patricia Overko  
Lucinda Renaud  
Suzanne Audette  
Robert Vadnais  
Maura Shield

### **Fixed Asset Subgroup**

Frank Dunton  
Thomas Mathers  
Glenn Hartmann  
Janet Wanczyk  
Charles Gisondi  
William Mitchell  
Thomas Marchitelli  
Richard Simmons  
Will Shea  
Amy Miarecki

### **Management Discussion and Analysis Subgroup**

Shane Conklin  
Lynda Kamik  
Steve O’Oriordan  
Janet Wanczyk  
Daniel Brosnan  
Brian Szymanski

### **Consultants**

Paul Hanley, PWC  
Dorian Gregory, PWC

## Introduction

This is a report on the impact of the new financial reporting model prescribed by the Governmental Accounting Standards Board in Statement 35 *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities: an Amendment of GASB Statement No. 34* (new model). Effective with the fiscal year ended June 30, 2002 the new financial reporting model will replace the statements historically presented as prescribed by the Governmental Accounting Standards Board and The American Institute of Certified Public Accountants' industry audit guide, *Audits of colleges and Universities* (current model).

The principal difference between the two models is that the new format focuses on the University as a whole and requires full accrual accounting and depreciation of assets. The tools for describing the University's financial results are the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and Statement of Cash Flows. A discussion and analysis prepared by management is also required under the new model.

The Statement of Net Assets, similar to a balance sheet in format, presents information about the resources available to the University and claims against those resources. Both resources and assets are classified in a format which segregates assets that are not, or are not intended to be, available within the next year for operations and liabilities which are not expected to be due within the next year. The single most useful indicator of the short-term financial health of the University is the ratio of current assets to current liabilities (current ratio). At June 30, 2000 the current ratio of 1.1 to indicates that the University has sufficient available resources to meet its current obligations.

The Statement of Revenues, Expenses and Changes in Net Assets is very similar to a commercial operating statement with the exception that state appropriations, investment income, gifts and interest expense are not classified as operating income. This a major departure from prior historical treatment of these items. The presentation results in net operating income of negative \$552.3 million which is offset by nonoperating revenues of \$601.6 million.

The introduction of depreciation expense into the financial statements necessitates that cash flows be considered in conjunction with the review of operating statements when evaluating the financial health of the University. The Statement of Cash Flows presents information about operating, financing and investing activities. In this statement, nonoperating revenues (state appropriations, gifts, investment income and interest expense) are included in financing and investing activities. A positive indicator of the financial health of the University is the increase in cash of \$15.6 million.

### **Implementing the New Standards**

University management fully understood that implementing new reporting standards at the same time that the new Peoplesoft administrative systems would “go live” would increase compliance, operational and financial risks. For that reason, the University Controller’s Office in consultation with the Management Council (vice chancellors for administration and finance, chaired by the vice president for management & fiscal affairs and treasurer) engaged the University’s external auditors to assist in development and implementation of a plan to adopt the new standards. All five campuses and the President’s Office committed resources to the multi-year project.

The University Controller convened three university-wide subgroups that included wide representation from the University System Budget, Controller and Treasurer offices as well as campus Budget and Controller offices. The sponsors for this project are the controllers and the budget officers.

The first subgroup focused on fixed assets for about eleven months. The outcome of their work was a comprehensive capitalization and depreciation guideline. The depreciation guidelines were used to calculate accumulated depreciation as well as the annual charge for fiscal year 2000.

The second group, known as the Reporting Subgroup, began their work in late 2000. It was their job to understand the requirements for the new financial statements including analyzing fund balances in order to determine their new classification. This group was charged with reformatting the fiscal year 2000 statements that will be presented to the Board of Trustees in April 2001. The same group will reconvene in November 2001 for the purpose of reformatting the fiscal year 2001 statements using the new guidelines. One of the more important deliverables of the above efforts will be a transfer of new knowledge to the campus financial staff as well as a comprehensive accounting and financial reporting policies and procedures manual.

The third group, the MD&A Subgroup, also began their efforts in late 2000. They concentrated on the new requirement for a comprehensive management discussion and analysis that must accompany the new financial report. It was their job to determine what important facts and figures would be included in the MD&A.

Another task involved coordinating with the University's related entities such as the UMass Building Authority and the UMass Foundation. The University Controller has

met with UMass Building Authority representatives including their external auditors. The University and the UMass Building Authority have reached initial agreement relative to consistency of treatment in all important aspects of the new standards. The University Controller will establish contact with the UMass Foundation by June 30, 2001 for the purpose of coordinating required information from that entity.

Management began this project earlier than most public institutions because it acknowledged the business risks that were attached to failing to be able to comply with the new GASB standards for reporting by June 30, 2002. Attached are the results of Phase I of this multi-phase project.

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of the University of Massachusetts (the "University") annual financial report presents our discussion and analysis of the financial performance of the University and its component units during the fiscal year ended June 30, 2000. This discussion has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with and is qualified in its entirety by the financial statements and footnotes. The financial statements, footnotes and this discussion are the responsibility of management.

### **Financial Highlights**

- Cash balances increased by \$15.6 million.
- The University's financial position, as a whole, improved during the fiscal year ended June 30, 2000. Its combined net assets increased \$44.7 million from the previous year.

### **Using the Annual Report**

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board in Statement 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*. These financial statements differ significantly, in both the form and the accounting principles utilized, from prior financial statements presented. The financial statements presented in prior years focused on the accountability of funds, while these statements focus on the financial condition of the University, the results of operations, and cash flows of the University as a whole.

One of the most important questions asked about University finances is whether the University as a whole is better off or worse off as result of the year's activities. The key to understanding this question is the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. These statements present financial information in a form similar to that used by corporations. The University's net assets (the difference between assets and liabilities) is one indicator of the University's financial health. Over time, increases or decreases in net assets is one indicator of the improvement or erosion of the University's financial health when considered with non-financial facts such as enrollment levels and the condition of the facilities.

That Statement of Net Assets includes all assets and liabilities. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. All things being equal, a public University's dependency on state aid and gifts will result in operating deficits. That is because the financial reporting model classifies State appropriations and gifts as nonoperating revenues. The utilization of long-lived assets, referred to as Capital Assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

Another important factor to consider when evaluating financial viability is the University's ability to meet financial obligations as they mature. The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, capital, financing and investing activities.



## Reporting Entity

The financial statements report information about the University as a whole using accounting methods similar to those used by private-sector companies. The financial statements of the University are separated between University and Component Unit activities. The University's Component Units are the University of Massachusetts Foundation, Inc., the University of Massachusetts Dartmouth Foundation, Inc. and Worcester City Campus Corporation.

## Condensed Financial Information

<b>University of Massachusetts</b>				
<b>Condensed Statement of Net Assets</b>				
<b>June 30, 2000</b>				
<b>(in thousands of dollars)</b>				
	<b>University</b>		<b>University Related Organizations</b>	
<b>ASSETS</b>	<b>University</b>	<b>Percent</b>	<b>Organizations</b>	<b>Percent</b>
Current Assets	\$283,384	20.7%	\$66,747	21.2%
Noncurrent Assets	1,084,806	79.3%	248,716	78.8%
Total Assets	1,368,190	100.0%	315,463	100.0%
<b>LIABILITIES</b>				
Current Liabilities	261,053	49.2%	15,535	11.5%
Noncurrent Liabilities	269,165	50.8%	119,303	88.5%
Total Liabilities	530,218	100.0%	134,838	100.0%
<b>NET ASSETS</b>				
Invested in Capital Assets Net of Related Debt	482,452	57.6%	23,648	13.1%
Restricted				
Nonexpendable	24,703	2.9%	116,406	64.4%
Expendable	155,059	18.5%	12,769	7.1%
Unrestricted	175,759	21.0%	27,802	15.4%
Total Net Assets	\$837,973	100.0%	\$180,625	100.0%

During fiscal year 2000, total University assets were \$1.4 billion. The University's largest asset is its investment in its physical plant of \$.7 billion at June 30, 2000. Cash and investments increased by \$46.3 million or 14.1 percent primarily due to the results of operations in 2000. Cash and securities held by trustees increased by \$16.4 million or 37.3 percent mostly due to the implementation of the \$40 million revolving loan fund in fiscal year 2000 offset by decreases of \$23.6 million due to expenditures made from capital leases, bond funds, and the revolving loan fund.

The accounts receivable from UMass Memorial totaling \$72.9 million is the University's fourth largest asset. The receivable decreased by \$36.9 million or 33.6 percent primarily due to the write-off of the receivable related to the departmental education funds of \$22.6 million.

University liabilities total \$530.2 million at June 30, 2000. Long-term debt of \$212.2 million (\$329.5 million when including WCCC and Foundation debt), consisting of bonds payable and capitalized lease obligations, is the largest liability.

The University's current assets of \$283.4 million were sufficient to cover current liabilities of \$261.1, as the current ratio was 1.1 dollar in assets to every 1 dollar in liabilities.

Total net assets of \$837.9 million increased by \$44.7 million during fiscal 2000. The expendable net assets totaled \$155.9 million, which represents 12.4 percent of total operating expenditures during 2000.

<b>University of Massachusetts</b> <b>Condensed Statement of Revenues, Expenses and Changes in Net Assets</b> <b>For The Year Ended June 30, 2000</b> <b>(in thousands of dollars)</b>			
	<u>University</u>	<u>University Related Organizations</u>	<u>Combined Totals Memorandum Only</u>
<b>Operating Revenues</b>			
Tuition and Fees	\$102,356		\$102,356
Grants and Contracts	297,069		297,069
Auxiliary Enterprises	150,335		150,335
Other Operating Revenues	158,697		158,697
<b>Total Operating Revenues</b>	<b>708,457</b>		<b>708,457</b>
<b>Operating Expenses</b>	1,260,771	\$8,094	1,268,865
<b>Operating Income/(Loss)</b>	<b>(552,314)</b>	<b>(8,094)</b>	<b>(560,408)</b>
<b>Nonoperating Revenues</b>			
Federal Appropriations	6,146		6,146
State Appropriations	556,655		556,655
Other Nonoperating Income	38,807	5,980	44,787
<b>Net Nonoperating Revenues</b>	<b>601,608</b>	<b>5,980</b>	<b>607,588</b>
<b>Income/(Loss) Before Other Revenues, Expenses, Gains or Losses</b>	<b>49,294</b>	<b>(2,114)</b>	<b>47,180</b>
Capital Appropriations	47,794		47,794
Capital Grants and Contracts	323		323
Additions to Permanent Endowments	777	22,328	23,105
University Related Organization Transactions	(9,429)	9,429	0
Loss from Disposal of Previously Discontinued Operations	(15,105)		(15,105)
Other Additions/(Deductions)	(28,983)	(4,217)	(33,200)
<b>Total Other Revenues, Expenses, Gains, and Losses</b>	<b>(4,623)</b>	<b>27,540</b>	<b>22,917</b>
<b>Total Increase in Net Assets</b>	<b>44,671</b>	<b>25,426</b>	<b>70,097</b>
<b>Net Assets</b>			
Net Assets at Beginning of Year	793,302	155,199	948,501
<b>Net Assets at End of Year</b>	<b>\$837,973</b>	<b>\$180,625</b>	<b>\$1,018,598</b>

Total operating revenues for fiscal 2000 were \$708.5 million. The most significant sources of revenue for the University are tuition and fees, grants and contracts and auxiliary services.

Operating expenditures including depreciation of \$56.8 million totaled \$1.3 billion. Of this total, \$531.8 or 42.2 percent was used for instruction and student support, and \$192.3 million or 15.2 percent for research. Annual debt service payments of \$30.4 million represented 2.4 percent of operating expenditures.

### The Statement of Cash Flows

Another way to assess the financial health of an institution is to look at the Statement of Cash Flows. Its primary purpose is to provide relevant information about the cash receipts and cash payments of an entity during a period. The Statement of Cash Flows also helps users assess:

- an entity's ability to generate future net cash flows
- its ability to meet its obligations as they come due and
- its needs for external financing.

<b>University of Massachusetts</b> <b>Condensed Statement of Cash Flows - Direct method</b> <b>For The Year Ended June 30, 2000</b> <b>(in thousands of dollars)</b>	
	<u><b>University</b></u>
<b>Cash provided/(used) by:</b>	
Operating Activities	(\$436,019)
Non-capital Financing Activities	537,367
Capital and Related Financing Activities	(36,031)
Investing Activities	(49,710)
Net increase in cash	<u><b>15,607</b></u>
<b>Cash - Beginning of the Year</b>	<u><b>90,370</b></u>
<b>Cash - End of Year</b>	<u><b>\$105,977</b></u>

Major sources of funds included in operating activities include student tuition and fees (\$252.8 million), and grants and contracts (\$298.7 million). The largest payments in this group were made to employees (\$734.2 million) and to suppliers (\$222.5 million).

The largest inflow of cash in the noncapital financing activities group is the state appropriation at \$518.3 million. Cash used by capital and related financing activities is primarily the acquisition of capital assets during fiscal year 2000. The unfavorable market conditions during the year resulted in a decrease in cash provided by investing activities.

### State Appropriations

Unless otherwise permitted by the Massachusetts Legislature, the University is required to remit tuition to the Commonwealth. Therefore, the University collects student tuition on behalf of the Commonwealth and remits it to the Commonwealth's General Fund. There is no direct connection between the amount of tuition revenues collected by the University and the amount of state funds appropriated in any given year. The following details the Commonwealth appropriations received by the University for fiscal year ending June 30 (in thousands):

	<u><b>2000</b></u>
Gross Commonwealth Appropriations	\$ 473,931
Plus: Fringe Benefits*	<u>82,724</u>

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	556,655
Less: Tuition Remitted	(95,931)
Net Commonwealth Support	<u>\$ 460,724</u>

\*The Commonwealth pays the fringe benefit cost for University employees paid from Commonwealth appropriations. Therefore, such fringe benefit support is added to the "State Appropriations" financial statement line item as presented in the above table. The University pays the Commonwealth for the fringe benefit cost of the employees paid from funding sources other than Commonwealth appropriations.

## Grant and Contract Revenue

The following table details the University's grant and contract revenues (in millions) for the fiscal year ended June 30:

	<b><u>2000</u></b>
Federal Sources	
Department of Agriculture	\$10.4
Department of Defense	18.2
Department of Education	34.6
Department of Health and Human Services	86.6
National Science Foundation	23.9
Other Federal Agencies	<u>18.3</u>
Total Federal Sources	<b>192.0</b>
Less: Financial Reporting Reclassification (1)	(17.4)
<b>Net Federal Awards</b>	<b>174.6</b>
Non-Federal Sources	
State and Local	48.6
Private	<u>73.7</u>
Total Non-Federal Sources	<b><u>122.3</u></b>
<b>Total All Sources</b>	<b><u>\$296.9</u></b>

(1) Total Federal Sources includes Federal Pass-Through grants and contracts. For financial statement reporting purposes, the University presents Federal Pass-Through grants and contract revenues in the "State Grant and Contracts", "Local Grant and Contracts" and "Private Gifts, Grants and Contracts" financial statement revenue categories. Therefore, for purposes of this detail, the University removes Federal Pass-Through grants and contracts from the Federal Sources total and includes these pass-through revenues in the State and Local and Private line items in this detail.

The University's Medical School campus in Worcester has been the primary catalyst in the University's research funding growth in recent years. The Medical School's rate of federal research funding growth is the fastest among U.S. medical schools, according to the National Institutes of Health. To help further increase research funding at the University, a 362,000 square foot research facility is due to open on the Worcester Medical School campus in August of 2001.

The University's Inter-Campus Graduate School of Marine Sciences and Technology (IGS) was established by the Board of Trustees in February 2000. The IGS, which leverages the resources of the University's five campuses, is expected to help the University attract more funding for research in the marine sciences.

## Component Units

### University of Massachusetts Foundation, Inc.

The combined University and Foundation endowment increased to approximately \$150 million at June 30, 2000 from approximately \$70 million at June 30, 1995. Additionally, there are two major campus based

fund-raising drives under way, a \$125 million capital campaign for the Amherst campus and a \$50 million drive for the Boston campus. The goal of these campus fund-raising activities is to generate campus funds that are dedicated to certain projects and initiatives. The Amherst and Boston fund raising drives are on pace to reach their goals in a timely manner.

The number of endowed chairs has grown from 4 in 1995 to 22 in 2000, enhancing the University's academic reputation. During fiscal year 2000, the Governor and Legislature approved a \$10 million state match of private support for new endowed chairs. The University expects that this effort will result in the funding of 15 additional chairs.

The Foundation utilizes the pooled investment concept whereby all invested funds are included in one investment pool, except for investments of certain funds that are otherwise restricted. Additions, redemptions and transfers to pooled investment funds are assigned a number of shares based upon their market value at the date of receipt or withdrawal. The actual spending rate for Foundation endowment funds was 5% for fiscal year 2000.

#### Worcester City Campus Corporation

Worcester City Campus Corporation (WCCC) is organized to operate certain activities relating to real and personal property in order to support the educational, research and public service activities of the University. During fiscal year 2000, WCCC began the construction and equipping of a 362,000 square foot research facility on the Worcester campus of the University. The primary funding source for the research facility project is the WCCC Bonds described below.

#### **Enrollment**

Except for the Medical School, which admits only Massachusetts residents (as required by Massachusetts Session Laws, 1987, Chapter 199, Section 99), admission to the University is open to residents and non-residents of the Commonwealth on a competitive basis. In the fall 2000 semester, Massachusetts residents accounted for approximately 83% and 62% of the University's total undergraduate and graduate fall enrollment, respectively.

Enrollments at the University have remained fairly stable over the last five years, with modest increases in 1998 and 1999. As desired, the University saw no significant change in University total FTE enrollment in the fall 2000 from the fall 1999. The University saw no significant change in freshman applications and a 4.2% system-wide increase in transfer applications, in the fall 2000 compared with the fall 1999. Also from fall 1999 to fall 2000, new freshmen and transfer enrollees decreased slightly University-wide by 2.6% and 0.3% respectively. The University's enrollment over the last five years showed slight increases through 1999 and minimal change in the fall 2000, consistent with the University's efforts to manage housing and class enrollment.

Enrollments on each campus are expected to remain substantially stable for the next five years (although the mix between undergraduate and graduate students may shift slightly), but no assurances can be given that this expectation will be realized. No expectation is expressed for any period after the next five years.

The following tables provide aggregate data for the campuses (except the Worcester campus) on University applications, acceptances and matriculations for first year undergraduates and for transfer students:

#### **First Year Applicants, Acceptances and Matriculants, Fall 2000**

	<u>Number of Applicants</u>	<u>Percent Accepted</u>	<u>Number Accepted</u>	<u>Yield</u>	<u>Number Enrolled</u>
Amherst	19,499	67%	13,126	28%	3,731
Boston	2,667	59%	1,562	45%	706
Dartmouth	4,915	73%	3,580	38%	1,357
Lowell	3,309	67%	2,227	45%	1,013
Total	30,390	67%	20,495	33%	6,807

**Transfer Student Applicants, Acceptances and Matriculants, Fall 2000**

	<u>Number of Applicants</u>	<u>Percent Accepted</u>	<u>Number Accepted</u>	<u>Yield</u>	<u>Number Enrolled</u>
Amherst	3,142	60%	1,874	65%	1,210
Boston	3,038	87%	2,631	59%	1,556
Dartmouth	777	86%	666	58%	389
Lowell	1,148	94%	1,079	69%	747
Total	8,105	77%	6,250	62%	3,902

**Total Headcount Enrollment, Fall 2000**

	<u>Undergraduate</u>	<u>Graduate</u>	<u>Continuing</u>	<u>TOTAL</u>
	ε		Ed	
Amherst	18,214	5,356	905	24,416
Boston	9,616	2,866	1,431	13,346
Dartmouth	5,731	671	1,011	7,413
Lowell	5,978	2,507	4,000	12,189
Worcester	NA	641	NA	641
Total	39,539	12,041	7,347	58,005

**Total Full-Time Equivalent Enrollment, Fall 2000**

	<u>Undergraduate</u>	<u>Graduate</u>	<u>Continuing</u>	<u>TOTAL</u>
	ε		Ed	
Amherst	17,664	4,058	383	22,105
Boston	6,833	1,910	416	9,159
Dartmouth	5,146	502	318	5,966
Lowell	5,356	1,498	1,167	8,020
Worcester	NA	609	NA	609
Total	34,999	8,576	2,284	45,859

The following tables show the latest retention and graduation rates for freshmen entering the University. The level and changes in retention and graduation rates reflect the diversity of the entering students.

**One-Year Retention rate of first-time full-time freshmen, Fall 2000 and Six-Year Graduation rates of first-time FT Freshmen, Fall 2000**

	Retention rate Fall <u>2000</u>	Graduation rates Fall <u>2000</u>
Amherst	84%	60%
Boston	70%	26% (1)
Dartmouth	79%	42%
Lowell	74%	37%

(1) The low end averages of the University data are the result of a University campus that focuses on the needs of non-traditional students. Additionally, national graduation rates at public and private four-year colleges and universities have declined in recent years due to lowered academic profiles and difficult financial circumstances for the students who entered secondary schooling in the late 1980's and early 1990's.

The following table shows the average Scholastic Aptitude Test ("SAT") scores for entering University freshmen. The United State Average in 1999-2000 was 1016.

**Average SAT Scores  
for Incoming  
Freshmen, Fall 2000**

Amherst	1127
Boston	1046
Dartmouth	1042
Lowell	1061

**Degrees Awarded**

The University awards four levels of degrees, including associate, bachelor's, master's and doctoral/professional degrees.

**Degrees Conferred (1999-2000)**

	Associate/ <u>Certificate</u>	<u>Bachelor</u>	Masters/ <u>CAGS*</u>	Doctorate/ <u>MD</u>	<u>TOTAL</u>
Amherst	86	4,038	1,043	276	5,443
Boston	58	1,358	707	31	2,154
Dartmouth	NA	912	220	1	1,133
Lowell	39	1,048	512	52	1,651
Worcester	NA	NA	29	120	149
Total	183	7,356	2,511	480	10,530

\* CAGS = Certificate of Advanced Graduate Studies

**Tuition and Fees**

The University strives to provide students with the opportunity to obtain a quality education. In this effort, in-state undergraduate student charges at the University have been reduced to charges consistent with 1994 levels. Once the second most expensive of the six New England public university systems, the University recently ranked fifth (based upon in-state undergraduate charges at the University's Amherst campus). Future University enrollments may be affected by a number of factors, including any material increase in tuition and other mandatory charges and any material decrease in Commonwealth appropriations.

**ANNUAL STUDENT COSTS (2001-2002)**  
**Resident Tuition & Mandatory Fees, 2001-2002**

<b>Undergraduate</b>	<b>Tuition</b>		<b>Fees</b>	<b>TOTAL Resident Tuition &amp; Fees</b>	<b>Room &amp; Board</b>
	<b>Resident</b>	<b>Non-Res.</b>			
Amherst	\$1,714	\$9,937	\$3,498	\$5,212	\$5,115
Boston	\$1,714	\$9,758	\$2,508	\$4,222	NA
Dartmouth	\$1,417	\$8,099	\$2,712	\$4,129	\$5,646
Lowell	\$1,454	\$8,567	\$2,801	\$4,255	\$5,095

**Graduate**

Amherst	\$2,640	\$9,937	\$3,202	\$5,842	NA
Boston	\$2,590	\$9,758	\$2,520	\$5,110	NA
Dartmouth	\$2,071	\$8,099	\$3,088	\$5,159	NA
Lowell	\$2,183	\$8,567	\$3,001	\$5,184	NA
Worcester					
Nursing	\$2,640	\$9,856	\$2,010	\$4,650	NA
Biomed	\$2,640	\$9,856	\$840	\$3,480	NA
Medical	\$8,352	NA	\$2,010	\$10,362	NA

**Bonds Payable**

University

At June 30, 2000, the University had outstanding bonds of approximately \$166,700,000 representing approximately \$126,700,000 of University of Massachusetts Building Authority bonds (the "Building Authority Bonds") and \$40,000,000 of University of Massachusetts bonds issued through the Massachusetts Health and Educational Facilities Authority (the "UMass HEFA Bonds"). Bonds payable is the University's largest liability at June 30, 2000, representing approximately 29% of total University liabilities. Projects initially financed by the Building Authority Bonds consist primarily of dormitories, apartments, dining commons, athletic and multi purpose facilities and parking garages at the University campuses. The proceeds from the UMass HEFA Bonds were used to create a revolving loan program from which the University is financing certain projects on a revolving basis, including the acquisition and implementation of administrative systems.

Subsequent to June 30, 2000 the University of Massachusetts Building Authority issued bonds totaling approximately \$203,000,000 (the "UMBA 2000 Bonds"). The proceeds of the UMBA 2000 Bonds are being used to fund certain campus projects including the new construction of a science facility, a heating plant and residence halls and renovations and repairs to campus facilities.

University Component Units

At June 30, 2000, the University component units had outstanding bonds of approximately \$117,500,000 representing University of Massachusetts Foundation bonds of approximately \$18,400,000 (the "Foundation Bonds") and Worcester City Campus Corporation bonds of approximately \$99,100,000 (the "WCCC Bonds"). The proceeds of the Foundation Bonds were used to acquire, develop, furnish and equip a medical research development facility adjacent to the Worcester campus. The proceeds of the WCCC Bonds are being used to fund the construction and equipping of a research facility on the Worcester campus.

**Capitalized Lease Obligations**



At June 30, 2000, the University had capital lease obligations with remaining principal payments of approximately \$45,500,000. The capital leases primarily consist of telecommunications, software and co-generation systems. Subsequent to June 30, 2000, the University entered into a new master lease arrangement for campus energy conversions in the amount of \$11,900,000.

### **Anticipated Financing**

The University anticipates issuing additional bonds through the Massachusetts Health and Educational Facilities Authority (the "MHEFA") during fiscal year 2001 in order to fund certain project included in the University's capital plan (the "Anticipated 2001 MHEFA Bonds"). See Capital Plan below for more information.

### **University Rating**

The University of Massachusetts has been rated "A+" by both Fitch IBCA and Standard & Poor's rating agencies. The highest achievable rating is "AAA" based upon the scale used in the University's rating. The University's capacity to meet its financial commitment on its obligations is looked upon as strong based upon the rating. The University's rating is one tier below the "AA-" rating of the Commonwealth of Massachusetts.

### **Limitations on Additional Indebtedness**

The University may, without limit, issue additional indebtedness or request the Building Authority to issue additional indebtedness on behalf of the University so long as such indebtedness is payable from all available funds of the University. However, the University may request that the Building Authority issue additional indebtedness not payable from all available funds of the University provided that the additional indebtedness is secured by certain pledged revenues and the maximum annual debt service on all revenue indebtedness does not exceed 10% of the University's available revenues.

The Building Authority is authorized by its enabling act to issue bonds with the unconditional guarantee of the Commonwealth of Massachusetts for the punctual payment of the interest and principal payments on the guaranteed bonds. The full faith and credit of the Commonwealth are pledged for the performance of its guarantee. The enabling act, as amended, presently limits to \$200,000,000 the total principal amount of notes and bonds of the Building Authority that may be Commonwealth guaranteed and outstanding at any one time.

### **Capital Plan**

The University Trustees approved a five-year (fiscal year 2001-2005), approximately \$1.2 billion capital plan to be financed from all available funding sources, including projects already in process with prior approval of the University Trustees, as well as new projects. During fiscal year 2000, the University expended approximately \$93.3 million on plant related projects. The University generally has funded its capital plans through a combination of moneys received from University operations, bonds issued by the Building Authority, Massachusetts Health and Educational Facilities Authority financing, Commonwealth appropriations, and private fund raising. The execution of the University's capital plan is contingent upon sufficient funding from the Commonwealth.

The University's five year capital plan includes both new projects as well as major projects in process from 2001 through 2005 that were previously approved by the University Trustees in prior year capital plans. The fiscal year 2001-2005 capital plan includes the following major projects and their related indebtedness or anticipated indebtedness:

**Amherst**

- New construction of an Integrated Sciences Facility for approximately \$75 million (financing provided by the UMBA 2000 Bonds).
- Deferred maintenance of the campus heating plant for approximately \$63 million (financing provided by the UMBA 2000 Bonds).

**Boston**

- New construction of a campus center for approximately \$70 million (financing planned as part of the Anticipated 2001 HEFA Bonds).
- Replace fire alarm panels for approximately \$2.3 million (financing provided by the UMBA 2000 Bonds).

**Dartmouth**

- New construction of residence halls for approximately \$29.2 million (financing provided by the UMBA 2000 Bonds).
- Renovation of the College of Business for approximately \$2.8 million (financing provided by the UMBA 2000 Bonds).

**Lowell**

- New construction of a student center for approximately \$20.5 million (financing planned as part of the Anticipated 2001 HEFA Bonds).

**Worcester**

- New construction of a 362,000 square foot basic science research building for approximately \$100 million (financed by the WCCC Bonds),
- Granite facade replacement for approximately \$55 million (financing planned as part of the Anticipated 2001 HEFA Bonds).

In 1996 the University initiated a more active program to address deferred maintenance needs at its campuses. As a result, the University has expended approximately \$169 million to repair and renovate facilities at the University's campuses from a combination of University sources and direct Commonwealth support. Addressing deferred maintenance remains a priority within the University's capital plan. The University's 2001-2005 capital plan includes approximately \$245 million of deferred maintenance projects.

**Factors Impacting Future Periods**

There are a number of issues of University-wide importance that directly impact the FY2000 financial situation. Many of these issues such as financial aid, expanding fundraising capacity, and performance measurement are ongoing activities of continuous importance to the Board of Trustees and University leadership that impact the financial and budget planning each year.

The level of state support, the impact of collectively bargained wage increases, the ability of student fee supported activities to meet inflationary pressures determine the limits of program expansion, new initiatives and strategic investments as well as the ability of the University to meet its core mission and ongoing operational needs.

State appropriations contribute roughly two-thirds of general operations revenues and forty-two percent of all operating and non-operating revenues. The level of state support is therefore one of the key factors influencing the University's condition. Although the state appropriation is unrestricted revenue, eighty-five percent of the state appropriation is payroll and benefits for University employees.

With the increases in state support in recent years and the action of University leadership, tuition and fees are no longer at the very highest ranks in the nation. For FY2000, overall student charges remain level with student fee increases offset by tuition reductions. These modest increases coupled with increased enrollments at a number of campuses resulted in increased revenues for student fee-based operations (including auxiliary enterprises).

The need to address priority needs and requirements for deferred maintenance, technology, repairs and adaptation, and selected new construction projects may be the biggest challenge facing the University in years to come. The commitment of operating funds for servicing debt and/or funding capital expenditures has an ongoing impact on the overall financial picture of the University.

The University has launched a comprehensive replacement of all administrative systems (Human Resources, Financial, and Student). This project is a direct outcome of the University's administrative redesign activity (ARD) and will result in systems that provide "state of the art" end user capacity and improved management planning information. It will also have a major impact on operations, staffing, and spending.

As noted above, all of the campuses and system administration are investing operating funds towards this project for the servicing of new debt for the PeopleSoft software license and direct expenditures on hardware, software and consulting services to move this project forward.

Reallocation and assessment programs, both academic and administrative, continue across the University. These efforts are geared to assessing our performance related to goals, rethinking the way we do business, and freeing up resources to support change. The University's ongoing administrative redesign project (ARD) and efforts to identify reallocation opportunities have expanded to new planning activities to enhance revenues and control expenditures over the short and long term. System-wide efforts to expand corporate and continuing education and distance learning opportunities are underway in FY2000.

University of Massachusetts  
**Combined Statement of Net Assets**  
**June 30, 2000**  
(in thousands of dollars)

***FOR ILLUSTRATIVE PURPOSES ONLY***

		University Related Organizations	Combined Totals Memorandum Only
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	\$12,993	\$121	\$13,114
Cash Held By State Treasurer	16,347		16,347
Cash and Securities Held by Trustees	829		829
Accounts, Grants and Loans Receivable	95,667	2,019	97,686
Pledges Receivable Net of Allowance	13,379		13,379
Investments	74,706	2,211	76,917
Inventory	8,670		8,670
Accounts Receivable UMass Memorial	51,033	11,000	62,033
Due From Related Organizations	928	50,868	51,796
Other Assets	8,832	528	9,360
<b>Total Current Assets</b>	<b>283,384</b>	<b>66,747</b>	<b>350,131</b>
<b>Noncurrent Assets</b>			
Cash and Cash Equivalents	3,175		3,175
Cash Held By State Treasurer	13,183		13,183
Cash and Securities Held by Trustees	59,450	91,826	151,276
Accounts, Grants and Loans Receivable	33,255		33,255
Investments	282,973	103,305	386,278
Accounts Receivable UMass Memorial	21,885		21,885
Due From Related Organizations	3,216		3,216
Other Assets	2,566	1,612	4,178
Investment In Plant Net of Accumulated Depreciation	665,103	51,973	717,076
<b>Total Noncurrent Assets</b>	<b>1,084,806</b>	<b>248,716</b>	<b>1,333,522</b>
<b>Total Assets</b>	<b>1,368,190</b>	<b>315,463</b>	<b>1,683,653</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts Payable	52,915	6,673	59,588
Accrued Salaries and Wages	43,077		43,077
Accrued Liability for Compensated Absences	27,886		27,886
Accrued Liability for Workers' Compensation	2,938		2,938
Accrued Interest Payable	1,733	622	2,355
Bonds Payable	11,306	360	11,666
Capitalized Lease Obligations	8,495		8,495
Due To Related Organizations	50,868	4,144	55,012
Accounts Payable UMass Memorial	3,146		3,146
Deferred Revenues and Credits	13,798	1,730	15,528
Advances and Deposits	3,989	25	4,014
Other Liabilities	40,902	1,981	42,883
<b>Total Current Liabilities</b>	<b>261,053</b>	<b>15,535</b>	<b>276,588</b>
<b>Noncurrent Liabilities</b>			
Accounts Payable	900		900
Accrued Liability for Compensated Absences	34,800		34,800
Accrued Liability for Workers' Compensation	11,151		11,151
Bonds Payable	155,421	116,934	272,355
Capitalized Lease Obligations	37,019		37,019
Accounts Payable UMass Memorial	2,711		2,711
Deferred Revenues and Credits	3,026		3,026
Other Liabilities	24,138	2,369	26,507
<b>Total Noncurrent Liabilities</b>	<b>269,165</b>	<b>119,303</b>	<b>388,468</b>
<b>Total Liabilities</b>	<b>530,218</b>	<b>134,838</b>	<b>665,056</b>
<b>NET ASSETS</b>			
Invested in Capital Assets Net of Related Debt	482,452	23,648	506,100
Restricted			
Nonexpendable	24,703	116,406	141,109
Expendable	155,059	12,769	167,828
Unrestricted	175,759	27,802	203,561
<b>Total Net Assets</b>	<b>\$837,973</b>	<b>\$180,625</b>	<b>\$1,018,598</b>

## University of Massachusetts

**FOR ILLUSTRATIVE PURPOSES ONLY****Combined Statement of Revenues, Expenses, and Changes in Net Assets****For The Year Ended June 30, 2000****(in thousands of dollars)**

	<b>University</b>	<b>University Related Organizations</b>	<b>Combined Totals Memorandum Only</b>
<b>REVENUES</b>			
<b><i>Operating Revenues</i></b>			
Tuition and Fees (net of scholarship allowances of \$64,996)	\$198,287		\$198,287
Tuition Remitted to the State	(95,931)		(95,931)
Federal Grants and Contracts	174,661		174,661
State Grants and Contracts	46,159		46,159
Local Grants and Contracts	2,591		2,591
Private Grants and Contracts	73,658		73,658
Sales & Service, Educational	10,702		10,702
Auxiliary Enterprises	150,335		150,335
Other Operating Revenues:			
Sales & Service, Independent Operations	26,323		26,323
Sales & Service, Public Service Activities	71,127		71,127
Other	50,545		50,545
<b><i>Total Operating Revenues</i></b>	<b>708,457</b>		<b>708,457</b>
<b>EXPENSES</b>			
<b><i>Operating Expenses</i></b>			
<b><i>Educational and General</i></b>			
Instruction	370,734		370,734
Research	192,315		192,315
Public Service	96,578	\$1,404	97,982
Academic Support	94,087		94,087
Student Services	67,024		67,024
Institutional Support	124,011		124,011
Operation and Maintenance of Plant	92,208		92,208
Depreciation	56,816	995	57,811
Scholarships and Fellowships	6,610	5,695	12,305
<b><i>Auxiliary Enterprises</i></b>	<b>139,918</b>		<b>139,918</b>
<b><i>Other Expenditures</i></b>			
Independent Operations	20,470		20,470
<b><i>Total Operating Expenses</i></b>	<b>1,260,771</b>	<b>8,094</b>	<b>1,268,865</b>
<b><i>Operating Income/(Loss)</i></b>	<b>(552,314)</b>	<b>(8,094)</b>	<b>(560,408)</b>
<b>NONOPERATING REVENUES/(EXPENSES)</b>			
Federal Appropriations	6,146		6,146
State Appropriations	556,655		556,655
Gifts	20,290	8,044	28,334
Investment Income	22,483	(1,960)	20,523
Endowment Income	1,748	2,421	4,169
Interest on Indebtedness	(11,042)	(2,562)	(13,604)
Other Nonoperating Income	5,328	37	5,365
<b><i>Net Nonoperating Revenues</i></b>	<b>601,608</b>	<b>5,980</b>	<b>607,588</b>
<b><i>Income/(Loss) Before Other Revenues, Expenses, Gains and Losses</i></b>	<b>49,294</b>	<b>(2,114)</b>	<b>47,180</b>
Capital Appropriations	47,794		47,794
Capital Grants and Contracts	323		323
Additions to Permanent Endowments	777	22,328	23,105
University Related Organization Transactions	(9,429)	9,429	0
Refunds to Grantors	(1,141)		(1,141)
Disposal of Plant Facilities	(23,718)		(23,718)
Loss from Disposal of Previously Discontinued Operations	(15,105)		(15,105)
Other Additions/(Deductions)	(4,124)	(4,217)	(8,341)
<b><i>Total Other Revenues, Expenses, Gains, and Losses</i></b>	<b>(4,623)</b>	<b>27,540</b>	<b>22,917</b>
<b><i>Total Increase/(Decrease) in Net Assets</i></b>	<b>44,671</b>	<b>25,426</b>	<b>70,097</b>
<b>NET ASSETS</b>			
Net Assets at Beginning of Year	<b>793,302</b>	155,199	948,501
<b>Net Assets at End of Year</b>	<b>\$837,973</b>	<b>\$180,625</b>	<b>\$1,018,598</b>

University of Massachusetts  
Statement of Cash Flows - Direct method  
For The Year Ended June 30, 2000  
(in thousands of dollars)

**FOR ILLUSTRATIVE PURPOSES ONLY**

	<u>University</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Tuition and Fees	\$252,823
Tuition Remitted to the State	(95,931)
Grants and Contracts	298,673
Payments to Suppliers	(222,453)
Payments to Employees	(734,169)
Payments for Benefits	(103,580)
Payments for Scholarships and Fellowships	(75,996)
Loans Issued to Students and Employees	(5,896)
Collections of Loans to Students and Employees	6,543
Auxiliary Enterprises Charges	142,818
Sales and Service, Educational	8,571
Sales & Service, Independent Operations	25,007
Sales & Service, Public Service Activities	67,571
<b>Net Cash Used from Operating Activities</b>	<b>(436,019)</b>
<b>CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES</b>	
State Appropriations	518,334
Proceeds from Noncapital Debt	9,225
Gifts and Grants for Other Than Capital Purposes;	9,443
Private Gifts for Endowment Purposes	261
William D. Ford Direct Lending Receipts	26,315
William D. Ford Direct Lending Disbursements	(26,315)
Federal Family Education Loan Program Receipts	82,044
Federal Family Education Loan Program Disbursements	(82,044)
Student Organization Agency Transactions	104
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>537,367</b>
<b>CASH FLOW FROM CAPITAL FINANCING ACTIVITIES</b>	
Proceeds from Capital Debt	30,066
Capital Appropriations	46,429
Capital Grants and Contracts	412
Purchases of Capital Assets and Construction	(75,128)
Principal Paid on Capital Debt and Leases	(19,399)
Interest Paid on Capital Debt and Leases	(11,042)
Deposit with Trustees	(7,369)
<b>Net Cash Used from Capital Financing Activities</b>	<b>(36,031)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>	
Proceeds from Sales and Maturities of Investments	551,445
Interest on Investments	18,324
Purchase of Investments	(619,479)
<b>Net Cash Used from Investing Activities</b>	<b>(49,710)</b>
<b>NET INCREASE IN CASH</b>	<b>15,607</b>
<b>Cash - Beginning of the Year</b>	<b>90,370</b>
<b>Cash - End of Year</b>	<b>\$105,977</b>
<b>RECONCILIATION OF NET OPERATING REVENUES/(EXPENSES) TO NET CASH USED FROM OPERATING ACTIVITIES</b>	
Operating Income	(\$552,314)
<i>Adjustments to reconcile net income/(loss) to net cash provided/(used) by Operating Activities:</i>	
Depreciation Expense	56,816
<i>Changes in Assets and Liabilities:</i>	
Receivables, net	10,078
Due from Related Organizations	811
Accounts Receivable/Payable UMass Memorial	36,354
Other Assets	(2,117)
Accounts Payable	2,994
Accrued Salaries and Wages	(7,780)
Accrued Liability for Compensated Absences	(2,453)
Accrued Liability for Workers Compensation	(3,676)
Due To Related Organizations	13,491
Deferred Revenue	3,568
Advances and Deposits	(891)
Other Liabilities	9,100
<b>Net Cash Used by Operating Activities</b>	<b>(\$436,019)</b>

**FY2000 Financial Indicators - Executive Summary**  
**Comparison of Old Method to New Method**

***FOR ILLUSTRATIVE PURPOSES ONLY***

ENDOWMENT PER STUDENT - Old Method													
(detail comes from UMASS & Dartmouth Foundation workpapers - includes UMASS & Foundation endowments plus Quasi, financials only reflect UMASS portion including Quasi)													
	UMASS		Foundation		Quasi		Total		FTE Fall Actuals		Endowment		
	<u>Endowments</u>	+	<u>Endowments</u>	+	<u>Endowments</u>	=	<u>Endowments</u>	/	(FY2001 Budget - excludes CE)	=	<u>Per Student</u>		
Combined University	33,129	+		95,387	+		19,000	=	147,516	/	44,470	=	\$3,317

ENDOWMENT PER STUDENT - New Method													
	UMASS		Foundation		Quasi		Total		FTE Fall Actuals		Endowment		
	<u>Endowments</u>	+	<u>Endowments</u>	+	<u>Endowments</u>	=	<u>Endowments</u>	/	(FY2001 Budget - excludes CE)	=	<u>Per Student</u>		
Combined University	N/a	+		N/a	+		N/a	=	N/a	/	44,470	=	N/a

FINANCIAL CUSHION - Old Method							Building Authority Fund Balance	Expendable Fund Balance	Unrestricted Total Operating Expenditures	Financial Cushion
	<u>Unrestricted Fund Balance</u>	+	<u>Unexpended Fund Balance</u>	+	<u>Renewals &amp; Replacements Fund Balance</u>	- <u>State Fund Balance</u>	=	/	=	
Combined University	147,640	+	36,126	+	29,569	- 11,237	=	/	=	18.8%

FINANCIAL CUSHION - New Method							Building Authority Fund Balance	Expendable Fund Balance	Total Operating Expenditures	Financial Cushion
	<u>Unrestricted Fund Balance</u>	-	<u>State Fund Balance</u>	-	<u>Building Authority Fund Balance</u>	= <u>Expendable Fund Balance</u>	/	=		
Combined University	175,759	-	11,237	-	8,635	= 155,887	/	=		12.4%

**TOTAL RESOURCES PER STUDENT - NEED NEW INDICATOR**